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May 27, 2009

The Honorable Carl Levin
Chairman
The Honorable John McCain
Ranking Member
Committee on Armed Services
United States Senate

The Honorable Ike Skelton
Chairman
The Honorable John M. McHugh
Ranking Member
Committee on Armed Services
House of Representatives

Subject: Financial Management: DOD Needs to Clarify Its General Gift Fund Policies to Provide for Effective Oversight

From fiscal year 2005 through fiscal year 2008, the military services received about \$295 million in monetary and nonmonetary gifts from individuals and organizations wishing to donate gifts to the Department of Defense (DOD).¹ Section 2601(a) of Title 10, U.S. Code is a long-standing authority under which the secretaries overseeing DOD, the military services, and the Coast Guard may accept a gift on the condition that the gift be used for the benefit of or in connection with the establishment, operation, or maintenance of schools, hospitals, libraries, museums, cemeteries, or other institutions or organizations under the jurisdiction of the secretary concerned. In 2008, gifts to benefit such institutions or organizations included a monetary gift to construct an education center and nonmonetary gifts of a bronze statue and granite benches. In 2006, Congress enacted additional authority, under 10 U.S.C. § 2601(b) to allow the acceptance of gifts and services² to benefit certain members of the armed

¹In this report, unless otherwise specified, we use “gift” to refer to any gift, devise or bequest of real property, personal property, or money under the authority of 10 U.S.C. § 2601(a) or (b).

²Acceptance of services is permitted only under section 2601(b).

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forces and civilian employees of DOD who incurred a wound, injury, or illness in the line of duty and to benefit the dependents and survivors of those who are killed or wounded.³ For example, an Army official stated that the Army had recently accepted Internet services for wounded servicemembers who are recovering in a military hospital.

Under 10 U.S.C. § 2601, DOD and the military services are bound by certain limitations on both the acceptance and appropriate use of gifts accepted into the general gift funds—individual accounts established within the Department of the Treasury into which proceeds from monetary and nonmonetary gifts are deposited. In addition, DOD and the military services have established rules that are intended, among other things, to ensure that monetary and nonmonetary gifts that are accepted into these funds do not reflect unfavorably on the ability of the department to carry out its responsibilities in a fair and objective manner. DOD's policy establishes requirements for accepting, reporting, and monitoring gifts so that the department has the information necessary to conduct effective oversight of the general gift funds.⁴ Oversight of the general gift funds is essential to ensure that proceeds from monetary gifts and the disposal of nonmonetary gifts are properly accounted for and used in accordance with DOD and military service policies. In May 2004, we reported instances in which the military services did not have effective oversight of nonmonetary gifts accepted under the general gift fund authority for the renovations of general officer quarters, and we concluded that the military services had no assurance that the nonmonetary gifts were still in their possession.⁵

Under 10 U.S.C. § 2601(h), the Comptroller General is required to make periodic audits of gifts, devises, and bequests accepted under section 2601(a) or (b) and to submit a report of the results of such audits to Congress. As agreed with your offices,

³Section 2601(b) of Title 10, U.S. Code was included in section 374 of the National Defense Authorization Act for Fiscal Year 2006, Pub. L. No. 109-163 (2006). The authority expired on December 31, 2007, but was reinstituted and made permanent by section 593 of the National Defense Authorization Act for Fiscal Year 2008, Pub. L. No. 110-181 (2008).

⁴DOD's policy for accepting, reporting, and monitoring gifts under the gift fund authority is DOD Financial Management Regulation 7000.14R, *Operation and Use of General Gift Funds of the Department of Defense and Coast Guard*, vol. 12, ch. 30 (September 2008).

⁵GAO, *Defense Infrastructure: Issues Related to the Renovation of General and Flag Officer Quarters*, [GAO-04-555](#) (Washington, D.C.: May 17, 2004).

we addressed this requirement by focusing our review on evaluating the extent to which the military services have implemented DOD's policy for (1) accepting, (2) reporting, and (3) monitoring gifts accepted under the general gift fund authority.

To evaluate the extent to which the military services have implemented DOD's policy for accepting, reporting, and monitoring gifts accepted under the general gift fund authority, we reviewed and analyzed relevant documents such as statutes and DOD and service policies and guidance and military services gift fund records for fiscal years 2005 through 2008. While DOD's policy requires the military services to maintain gift fund records of all monetary and nonmonetary gifts accepted, military service officials acknowledged that they could not readily tell us the total magnitude of gifts that had been accepted below the secretary level because the records are not centrally managed or tracked. Thus, we obtained gift fund records for all monetary and nonmonetary gifts accepted at the secretary level—which generally are gifts with higher values or gifts of real property—from fiscal year 2005 through fiscal year 2008. To augment our review of these documents, we interviewed officials from the Office of the Under Secretary of Defense (Comptroller), which is the office that provides oversight for the operation of the general gift funds to discuss the policies and internal controls that office has in place to oversee the management of the general gift funds. We also interviewed officials from the military services and the Defense Finance and Accounting Service (DFAS) Trust Fund Accounting Division, which is responsible for managing the general gift fund accounts, to discuss DOD's policy and any implementation challenges. Lastly, we interviewed selected donors who made significant donations to the military services during the period covered by our review to obtain their perspectives on the military services' gift acceptance process and to discuss any donation-related challenges they may have experienced.

While DOD's gift fund policy covers gifts accepted by DOD, the military services, and the Coast Guard, we did not include the Coast Guard in our review because, according to DOD's policy, gifts to the Coast Guard would fall under DOD oversight only when the Coast Guard was operating under the authority of the Secretary of the Navy at the direction of the President or as directed by Congress in a declaration of

war. According to Coast Guard officials, at this time the Coast Guard has not accepted any gifts that would fall under DOD's oversight. In addition, we did not review gifts received under other authorities, such as 10 U.S.C. § 2608, which permits the Secretary of Defense to accept certain contributions from any person, foreign government, or international organization. We did not review gifts accepted under this authority because it fell outside the scope of the mandate.

On the basis of our discussions with agency officials and our review of relevant documentation, we determined that for the purposes of our report the data were sufficiently reliable for evaluating the military services' policies and procedures for implementing DOD's general gift fund policy and identifying broad implementation challenges. We conducted our performance audit from September 2008 through May 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Summary

The military services are implementing DOD's policy for accepting gifts under 10 U.S.C. § 2601(a) and are in the process of updating their policies to reflect the additional acceptance authority of section 2601(b), which became permanent in 2008. Military service policies for accepting gifts implement DOD's policy by specifying (1) who has the authority to accept gifts, (2) what dollar threshold each acceptance authority official is authorized to accept gifts, and (3) under which conditions these officials should accept or decline gifts. Who can accept gifts and at what dollar threshold vary by service. For example, within the Navy and the Marine Corps, only the Secretary and Under Secretary of the Navy have the authority to accept gifts of "real property."⁶ In the Army and the Air Force, however, several officials have been delegated the authority to accept gifts of real property as long as the value of the gift

⁶Real property includes land and any buildings, improvements, or fixtures on that land.

is within their dollar threshold for acceptance. In addition, each service policy delegates gift acceptance authority for certain gifts to the heads of the service academies, which are major recipients of donations. According to the military services' policies, each acceptance authority must consider the nature of a gift and its conditions, if any, when determining whether to accept or decline gifts, consulting legal counsel when appropriate. For example, under DOD's policy, after reviewing a gift offer, acceptance authorities shall decline a gift if it is determined that the gift would be inconsistent with the general gift fund authority or with DOD's related policy or would compromise the integrity or appearance of integrity of any DOD officials or programs. The military services are in the process of updating their policies to reflect the additional acceptance authority of section 2601(b) that would benefit servicemembers and civilians wounded in the line of duty and dependents or survivors of those wounded or killed in the line of duty, therefore, we are not making recommendations regarding this additional acceptance authority at this time.

While the military services are implementing DOD's policy for accepting gifts, they have not implemented the reporting requirements outlined in DOD's policy under the general gift authority. DOD's policy identifies specific information that the military services are to report and directs that they submit their reports to the DFAS Trust Fund Accounting Division, which in turn is to submit a quarterly report to the Under Secretary of Defense (Comptroller). Since October 2007, when DOD's reporting requirement was first established, the Under Secretary of Defense (Comptroller) has not received the DFAS report on military services' monetary and nonmonetary gifts. Our discussions with DOD officials and review of individual military service policies revealed the following reasons for this absence of reporting: (1) the military services' policies do not consistently reflect the reporting requirements outlined in DOD's policy, (2) DOD's policy did not identify the appropriate DFAS organizations for the military services to send their monetary and nonmonetary gift fund records to, and (3) military service officials have indicated that the lack of a standardized format hampers their ability to consolidate the gift fund information to report to DFAS. Even though the Army's policy did not contain DOD's reporting requirements, Army officials described an instance in which the Army contacted the DFAS Trust Fund

Accounting Division and was told by this division that it was not the appropriate entity to receive the military services' reports. On February 27, 2009, after we had relayed our concerns about these issues to DOD, the Under Secretary of Defense (Comptroller) issued a memorandum directing the military services to implement DOD's reporting requirements and submit their reports to the appropriate DFAS office. This recently issued memorandum begins to address the discrepancy in the reporting requirements and the confusion as to where the military services should report information, so we are not making recommendations on these specific issues at this time. While we are encouraged by these actions, we note that DOD's policy does not assign responsibility to a single DFAS entity for consolidating service report submissions into the quarterly report sent to the Under Secretary of Defense (Comptroller). Also, still not addressed are the service officials' concerns about the lack of a standardized reporting format. Without a single DFAS entity to serve as the final reporting collection point and without a standardized reporting format to facilitate service efforts to assemble and document information, DOD may continue to experience difficulties obtaining and synthesizing the specific information needed for the effective oversight of the general gift funds. As a result, we are recommending that the Secretary of Defense direct the Under Secretary of Defense (Comptroller) to clarify its gift fund policy so that it assigns responsibility to a single DFAS entity to consolidate the service DFAS submissions into one quarterly report to the Under Secretary of Defense (Comptroller), and also so that the policy assigns responsibility for developing a standardized reporting format and requires the use of that format.

Lastly, the military services' policies for monitoring nonmonetary gifts are insufficient to implement DOD's policy for monitoring gifts that fall under the general gift fund authority. According to DOD's policy, acceptance authorities shall keep auditable records of all monetary and nonmonetary gifts and provide this information for periodic audits. Our discussions with military service officials revealed that the military services maintain auditable records for money, but not for nonmonetary gifts. According to military service officials, the military services do not maintain a comprehensive listing of nonmonetary gifts and their current physical location. Service officials explained that once a nonmonetary gift is accepted, it loses its

designation as a gift and is entered onto the applicable service's installation property records. Service officials told us that nonmonetary gifts are monitored during the military services' routine inventories of property. However, we believe that this property inventory is not sufficient to implement DOD's procedures for monitoring nonmonetary gifts because the military services do not track gifts to verify that once accepted they are added to the property records. Consequently, the routine inventory of property would not provide evidence of effective oversight of nonmonetary gifts as it is not clear whether the property records include these gifts. As a result, we are recommending that the Secretary of Defense direct the secretaries of the military services to document, in their gift fund records, the transfer of nonmonetary gifts to the property records in order to provide evidence that nonmonetary gifts are on the property records, which according to military service officials are routinely audited.

In written comments on a draft of this report, DOD concurred with all three of our recommendations and stated that it had already revised its gift fund policy to address the three recommendations. DOD also provided technical comments which we have incorporated where appropriate. DOD's comments are reprinted in enclosure II.

Background

Section 2601 of Title 10, U.S. Code, grants the secretaries overseeing DOD, the military services, and the Coast Guard the authority to accept certain gifts. Specifically, 10 U.S.C. § 2601(a) authorizes the secretary concerned to accept "any gift, devise, or bequest of real property, personal property,⁷ or money on the condition that the gift, devise, or bequest be used for the benefit, or in connection with the establishment, operation, or maintenance of a school, hospital, library, museum, cemetery, or other institution or organization under the jurisdiction of the Secretary." Section 2601(b) of Title 10, U.S. Code, authorizes the secretary concerned to accept gifts of real or personal property, money, or services used to benefit certain members of the armed forces and civilian employees of DOD who incur a wound, injury, or illness in the line of duty and to benefit the dependents and survivors of

⁷Personal property, as defined in Navy policy, is clothing, jewelry, household furnishings, money, vehicles, stocks, bonds, intangibles, and all property not defined as real property.

those who are killed or injured. Section 2601(d) of Title 10, U.S. Code prohibits the acceptance of property, money, or services when

- its use would result in the violation of any prohibition or limitation otherwise applicable to any program, project, or activity;
- conditions attached to the property, money, or services are inconsistent with applicable law or regulation;
- the secretary concerned determines that the use of the property or money or the performance of the services would reflect unfavorably on the ability of DOD, the Coast Guard, any employee of DOD, or any member of the military services to carry out any responsibility or duty in a fair and objective manner; or
- the secretary concerned determines that the use of the property or money or performance of the services would compromise the integrity of any program of DOD or the Coast Guard or any individual involved in such a program.

In October 2007, DOD updated its policy by revising the DOD Financial Management Regulation to establish DOD's policy to provide implementing guidance and procedures to meet the requirements of 10 U.S.C. § 2601. DOD's policy specifically identifies certain circumstances under which DOD should not accept a gift, including but not limited to instances where a gift creates or requires

- the appearance or expectation of favorable consideration as a result of the gift;
- the appearance of an improper endorsement of the donor or its events, products, services, or enterprises;
- a serious question of impropriety in light of the donor's present or prospective business relationships with DOD;
- the expenditure or use of funds in excess of amounts appropriated by Congress; or
- substantial expenditures or administrative efforts and maintenance that are disproportionate to any benefit.

DOD's policy includes internal controls for accepting, reporting, and monitoring gifts as recommended by the federal standards.⁸ Federal internal control standards require agencies to establish clearly defined areas of authority and responsibility for operations and include needed information in policies for reporting and monitoring. For example, DOD's policy assigned authority and delegated responsibility at various levels for accepting gifts. The policy also identified the type of information that should be reported for managing the gift funds. Furthermore, it also provided guidance on information that should be available to allow for effective monitoring of gifts.

Since military service officials stated that monetary and nonmonetary gifts accepted are not centrally managed, a comprehensive listing of gifts accepted by the military services was not available. However, to get an idea of the type and dollar value of gifts accepted, we obtained gift records for gifts accepted at the secretary level, which are generally gifts of higher values and real property for fiscal years 2005 to 2008. These records showed that the Army accepted gifts totaling approximately \$81 million; the Air Force, \$107 million; and the Navy and Marine Corps, \$107 million. The types of nonmonetary gifts received varied widely. Examples of the types of gifts received include the following: land, improvements to real property, tools, books, golf carts, a bus, monuments, surgical equipment, and tickets to various events. A listing of gifts accepted at the secretary level from fiscal year 2005 through fiscal year 2008 and their total dollar value appears in enclosure I.

⁸ GAO, *Internal Control: Standards for Internal Control in the Federal Government*, [GAO/AMID-00-21.3.1](#) (Washington, D.C.: November 1999).

Military Services Are Implementing DOD's Policy for Accepting Gifts and Are Updating Their Policies to Reflect a Recent Addition to the Law

Acceptance Authorities and Dollar Thresholds for Gifts Accepted into the General Gift Funds Vary by Military Service

Section 2601(a) of Title 10, U.S. Code provides the authority to accept gifts to “the Secretary concerned.”⁹ Each military service has policies in place under which its secretary delegates this authority, in whole or in part, to other acceptance authorities within the respective service. Who can accept certain gifts varies by service. For example, within the Navy and the Marine Corps, only the Secretary and Under Secretary of the Navy have the authority to accept gifts of real property, whereas in the Army and Air Force, several officials have been delegated the authority to accept gifts of real property as long as the value of the gift is within their dollar threshold for acceptance. For personal property, all the service secretaries delegate authority, in whole or in part, for these types of gifts to other acceptance authorities below the secretary level.

Each military service policy also authorizes the superintendents of the service academies, which are major recipients of donations, the authority to accept certain gifts.¹⁰ In addition to the service policies for accepting gifts, the academies may have their own policies in place to operate and manage gifts accepted. For example, according to Army and Air Force officials, the U.S. Military Academy and the U.S. Air Force Academy have established supplemental policies that outline the procedures for accepting gifts.¹¹

The dollar thresholds at which designated acceptance authorities are authorized to accept gifts vary by service. For example, excluding the service academies, the Secretary of the Air Force has delegated gift acceptance authority to a number of

⁹This means the Secretary of Defense for gifts to DOD; the Secretaries of the Army, Navy, and Air Force for gifts to the military services; and the Secretary of Homeland Security for gifts to the Coast Guard.

¹⁰In the case of the U.S. Military Academy and the U.S. Naval Academy, this supplements additional specific gift acceptance authorities. See 10 U.S.C. § 4356 and 10 U.S.C. § 6973, respectively.

¹¹See, for example, Army Regulation 210-3, *Nonstandard Activities of the United States Military Academy and West Point Military Reservation*, ch. 11 (June 7, 1990).

subordinates for gifts of personal property up to \$50,000, while the Secretary of the Navy has delegated authority to accept gifts up to \$60,000. Table 1 shows the dollar threshold at which the acceptance authorities of each military service can accept gifts.

Table 1: Gift Acceptance Dollar Thresholds for the Military Services (by Type of Gift)

Type of gift	Army ^a	Air Force ^b	Navy and Marine Corps ^c
Personal property	<p>Any value</p> <ul style="list-style-type: none"> Secretary of the Army <p>Up to \$500,000</p> <ul style="list-style-type: none"> Superintendent, U.S. Military Service Academy <p>Up to \$250,000</p> <ul style="list-style-type: none"> Surgeon General Commanding General, Installation Management Command, for nonappropriated activities only, delegated as follows: <ul style="list-style-type: none"> Commanding General, Family and Morale, Welfare and Recreation Command Installation Management Command region directors Up to \$100,000 – garrison commanders Up to \$50,000 (when delegated by garrison commanders) – Family and Morale, Welfare, and Recreation directors 	<p>Over \$50,000</p> <ul style="list-style-type: none"> Secretary of the Air Force Air Force General Counsel Air Force Deputy General Counsel <p>Up to \$100,000</p> <ul style="list-style-type: none"> Superintendent, Air Force Academy <p>\$ 5,000 to \$50,000</p> <ul style="list-style-type: none"> Chief of Staff Commanders of major commands Other specified in AFI 51-601 <p>\$5,000 or less</p> <ul style="list-style-type: none"> Installation commanders 	<p>Over \$60,000</p> <ul style="list-style-type: none"> Secretary of the Navy Under Secretary of the Navy <p>Up to \$60,000</p> <ul style="list-style-type: none"> Chief and Vice Chief of Naval Operations Commandant of the Marine Corps Assistant for Administration, Under Secretary of the Navy Commanding flag officers Superintendent Naval Academy Others specified in SECNAVINST 4001.2H <p>\$3,000 to \$12,000</p> <ul style="list-style-type: none"> Flag officers in commands who report to the Chief of Naval Operations Others specified in OPNAVIST 4001.1E <p>\$3,000 or less</p> <ul style="list-style-type: none"> Commanding officers for certain systems commands Other specified in OPNAVINST 4001.1E
Real property	<p>Any value</p> <ul style="list-style-type: none"> Secretary of the Army <p>Up to \$500,000</p> <ul style="list-style-type: none"> Superintendent, U.S. Military Service Academy <p>Up to \$250,000</p> <ul style="list-style-type: none"> Surgeon General Commanding General, Installation Management Command, for nonappropriated activities only, delegated as follows: <ul style="list-style-type: none"> Commanding General, Family and Morale, Welfare and Recreation Command Installation Management Command region directors Up to \$100,000 – garrison commanders Up to \$50,000 (when delegated by garrison commanders) – Family and Morale, Welfare, and Recreation directors 	<p>Over \$10,000 or requiring expenditures for acceptance or upkeep over \$1,000</p> <ul style="list-style-type: none"> Secretary of the Air Force Assistant Secretary of the Air Force (Manpower, Reserve Affairs, Installations and Environment) Principal Deputy Assistant Secretary (Manpower, Reserve Affairs, Installations and Environment) Deputy Assistant Secretary (Installations) Deputy for Installations Management <p>\$25,000 or less</p> <ul style="list-style-type: none"> Director, Air Force Museum <p>\$10,000 or less not requiring annual upkeep over \$1,000</p> <ul style="list-style-type: none"> Commanders, major commands Others specified in AFI 51-601 <p>\$10,000 or less</p> <ul style="list-style-type: none"> Superintendent, Air Force Academy 	<p>All gifts</p> <ul style="list-style-type: none"> Secretary of the Navy Under Secretary of the Navy

Source: GAO analysis of DOD data.

^aThe Army thresholds are the result of specific delegations by the Secretary of the Army, and have not been incorporated in the Army gift regulation. Army Regulation 1-100, *Gifts and Donations* (Nov. 15, 1983).

^bAir Force thresholds are based on Air Force Instruction 51-601, *Gifts to the Department of the Air Force* (Nov. 26, 2003).

^cNavy thresholds are based on Secretary of the Navy Instruction 4001.2H, *Acceptance of Gifts* (Mar. 14, 2006), and Chief of Naval Operations Instruction 4001.1E, *Acceptance of Gifts* (Dec. 1, 2006).

Policies for Accepting or Declining Gifts

For each military service, after receiving a gift offer, acceptance officials must consider the nature of the gift and its conditions, if any, before accepting or rejecting the gift, consulting legal counsel as appropriate. Legal counsel may review each offer for ethical considerations and compliance with regulations and provides a recommendation on whether to accept the gift. After reviewing a gift offer, acceptance authorities shall decline a gift if it is determined that accepting the gift would be inconsistent with the general gift fund authority or with DOD or military service policies. For example, DOD, Air Force and Navy guidance states that a gift will be declined if acceptance of the gift would (1) not be in the best interests of DOD or the military service, (2) create a serious question of impropriety in light of the donor's present or prospective business relationships with DOD or the military service, or (3) create substantial expenditures that would make accepting the gift not cost-effective.

Examples of gifts that were declined include the following:

- Military officials accepted and shipped a large quantity of playing cards to deployed service personnel, but later declined to accept a second larger quantity of playing cards because the shipping costs were not cost-effective.
- An energy exploration company offered a playground and video technology computer equipment, but this donation was declined because the company was seeking additional mineral leases on the installation—a possible conflict of interest.
- An artist wanted to work with a military service to establish a corporation that would use her angel statue as a new American icon (replacing the Statue of Liberty). The donor wanted the military's assistance with establishing the corporation and subsidizing the efforts to sculpt the statue. This donation was declined because, according to the service's general counsel, the military is legally prohibited from assisting in the establishment and operation of a corporation.

The Length of Time It Takes the Military Services to Accept Gifts Varies

According to military service officials, the length of time it takes to accept or decline gifts can greatly vary, depending on the type of gift and whether a specific stipulation has been made on the use of the gift. Military service officials stated that it takes about 2 weeks to accept a monetary gift once a formal offer has been received. However, the service officials said that it could take several months to more than a year to accept a nonmonetary gift once a formal offer has been made.

Example of gifts acceptance and time frames include the following:

- A military spouse sent a check for \$100 to the Honor Guard as an honorarium for performing a service at Arlington National Cemetery. This gift was accepted within 5 days and deposited into the Treasury's Miscellaneous Receipts account.
- Air Force officials stated that it took 5 months to accept a donation of pavers used to repair a memorial.
- Navy officials received a formal offer for a memorial on June 22, 2006, valued at \$157,500. The offer was accepted by the Secretary of the Navy on March 23, 2007, about 9 months later.

Some gifts have specific stipulations that must be met, which may affect how long it takes to accept them. For example, Army officials received a formal offer of \$419,400 for the Family and Morale, Welfare, and Recreation program at Fort Bragg, North Carolina, on October 28, 2008. The offer was sent to the Office of the General Counsel and accepted by the Secretary of the Army on October 31, 2008. A condition of this gift was that it had to be accepted by November 1, 2008. In another example, multiple copies of a children's book were donated to the Arlington National Cemetery on November 13, 2008, with the stipulation that the books be provided to children of family members killed in the line of duty and buried at Arlington National Cemetery. Because child psychologists were involved in creating the book, the Army took approximately 3 weeks to review the manuscript because of the potential

psychological implication to children. This donation was approved on December 17, 2008, about 5 weeks later.

We interviewed two donor organizations that made significant donations to the military services to obtain their perspectives on the military services' gift acceptance process and to discuss any donation-related challenges they may have experienced. Anecdotal reports from these organizations varied with respect to their satisfaction with the military services' respective processes for accepting gifts. The first organization, a service-specific donor for the Navy, stated that it did not have any issues with the Navy's acceptance process or the time it took for the Navy to accept its gifts. On the other hand, the second donor organization that routinely donates to all the military services expressed concerns about the time it took for each of the military services to accept nonmonetary gifts. The donor said that it took the military services too long, often a year or longer, to accept its gifts—for example, buildings donated to house family members visiting hospitalized servicemembers. The donor reported that it was taking the military services increasingly longer to accept gifts. The donor believed that considering the long-standing relationship it had with the military services, the time it took them to accept the gifts should decrease rather than increase over time. The donor told us that because the specifications for the donated buildings are very standard and have not changed over time, the acceptance process should be very quick and simple.

Military Services Are Updating Policies to Reflect Additional Acceptance Authority

According to military service officials, they are in the process of updating their policies to reflect the additional acceptance authority that became permanent in the 2008 National Defense Authorization Act allowing gifts to be accepted that benefit certain servicemembers and civilian employees of DOD who are wounded in the line of duty or dependents and survivors of those killed or wounded. Originally, this additional acceptance authority, which was included in DOD's October 2007 update of the DOD Financial Management Regulation, was due to expire on December 31, 2007. Because the new authority was due to expire soon, the military services

decided not to update their policies. However, this authority was made permanent in January 2008. Thus, we were told by military service officials that they are now in the process of updating their policies to include this additional authority. They stated that there will be separate acceptance policies for 10 U.S.C. § 2601(a) and (b) as outlined in DOD's policy.

The Military Services Have Not Implemented the Reporting Requirements Outlined in DOD's Policy

While the military services are implementing DOD's policy for accepting gifts, they have not implemented the reporting requirements outlined in DOD's policy under the general gift authority. Since DOD's policy was updated in October 2007, the military services stated that they have not submitted any required reports to DFAS, which in turn has not submitted any reports to the Under Secretary of Defense (Comptroller). Our discussions with DOD officials and review of individual service policies revealed the following reasons for this absence of reporting: (1) the military services policies do not consistently reflect the reporting requirements outlined in DOD's October 2007 policy, (2) DOD's policy did not identify the appropriate DFAS organizations for the military services to send their monetary and nonmonetary gift fund records to, and (3) service officials have indicated that the lack of a standardized format hampers the military services' ability to consolidate the gift fund information to report to DFAS.

Implemented in October 2007, DOD's policy for reporting gifts accepted under the general gift fund authority requires that the military services maintain specific documentation and information for all monetary and nonmonetary gifts received under 10 U.S.C. § 2601(a) and (b). For example, acceptance authorities are required to report

- a description of the gift;
- the value of the gift (estimated value if nonmonetary) including the validation method used;
- the name and address of the donor;
- the date the gift was received;

- the expected useful life of the donation;
- details of any conditions, restrictions, or other relevant specific information regarding the gift;
- a unique identifier or data element used to track the same or similar nonmonetary items received or shipped from different sources; and
- a statement explaining the benefits of accepting the gift.

According to DOD's policy, the military services are to provide this information to the DFAS Trust Fund Accounting Division no later than 10 days after the end of each quarter. Subsequently, the DFAS Trust Fund Accounting Division is to prepare and submit a quarterly report to the Under Secretary of Defense (Comptroller). DOD's policy also requires that in the reports to the DFAS Trust Fund Accounting Division, the military services report monetary and nonmonetary gifts separately and gifts accepted under 10 U.S.C. § 2601(a) and (b) separately.

Military Services' Policies Do Not Reflect the Reporting Requirements Outlined in DOD's Policy

Our review of the military services' policies and our discussions with service officials identified that the military services' policies do not contain DOD's policy requirement that the military services report monetary and nonmonetary gifts to DFAS and do not specify the documentation and information requirements that are contained in DOD's policy. Service officials offered different reasons for why they were not submitting gift fund reports to DFAS. Navy and Marine Corps officials initially explained that their respective military services did not incorporate DOD's reporting requirements into service-level policy because 10 U.S.C. § 2601 provided the military services with the direct authority to accept gifts and, by extension, the authority to develop their own related policies. Air Force officials told us that they were not aware of DOD's October 2007 policy and, specifically, of its reporting requirements. According to Army officials we interviewed, even though the Army's current policy did not include DOD's reporting requirements, they thought that DOD's policy did apply to them. However, these officials described one instance in which the Army contacted the DFAS Trust Fund Accounting Division to determine if it was supposed to submit its

reports to the division and was told that the division would not accept the data. The Trust Fund Accounting Division would not accept the data because it said that the division was the wrong entity to receive the military services' records, even though at that time the DFAS Trust Fund Accounting Division was the responsible organization for collecting the gift fund records according to DOD's policy.

DOD's Policy Does Not Identify the Appropriate DFAS Organizations for Reporting Monetary and Nonmonetary Gifts

DFAS Trust Fund Accounting Division officials we interviewed offered a second reason why the Trust Fund Accounting Division and the military services had not followed the reporting requirements included in DOD's policy in effect at the time. While DOD's policy identified the DFAS Trust Fund Accounting Division as the responsible organization for collecting service gift fund records, DFAS officials stated that they believed DOD's policy did not identify the correct DFAS organization for collecting this information and, as such, it had not accepted any service gift fund records. According to DFAS Trust Fund Accounting Division officials, this division is usually responsible for managing only DOD departmental or other defense agency accounts and not military service accounts. Furthermore, because each military service has a DFAS office that is currently managing the military service's accounts, the DFAS Trust Fund Accounting Division officials believe that those military service offices should have been responsible for managing the military services' respective general gift fund accounts. DFAS Trust Fund Accounting Division officials stated that the division was given a draft of DOD's policy and provided comments, but the original draft policy did not include the requirement for the Trust Fund Accounting Division to be the responsible organization for collecting military service gift fund records, although the final policy did include the requirement.

DOD Takes Action to Correct Some Reporting Deficiencies

On February 27, 2009, after we discussed our initial findings on the lack of gift fund reporting and the military service and DFAS responses with DOD officials, the Under Secretary of Defense (Comptroller) issued a memorandum directing the services to

- (1) implement DOD's reporting requirements;
- (2) report to the appropriate DFAS office; and
- (3) establish and update procedures for receiving, accounting for, and disposing of real and personal property gifts to be consistent with the DOD Financial Management Regulation and DOD property accountability policy.

According to service officials, the military services are in the process of updating their respective policies to reflect the reporting requirements outlined in DOD's policy. The memorandum requires the military services to provide their updated policies to the Under Secretary of Defense (Comptroller) by March 31, 2009, and begin reporting the required gift fund records to the appropriate DFAS office by April 10, 2009. According to the Under Secretary of Defense (Comptroller) official responsible for the new guidance, the military services were subsequently provided with the service-specific DFAS points of contact to which they are to send their gift fund records.

Furthermore, officials in the Office of the Under Secretary of Defense (Comptroller) stated that they plan to elevate the requirement laid out in the memorandum within the military services' chain of command if the military services' policies are not updated or gift fund records are not sent to DFAS within the set time frames. According to an Under Secretary of Defense (Comptroller) official, as of April 8, 2009, all military services had complied with the requirement to update their policies.

However, while we are encouraged by the initial steps DOD has taken to implement gift fund reporting, DOD's policy is still not clear on what DFAS entity will be responsible for consolidating the service DFAS submissions into the quarterly report sent to the Under Secretary of Defense (Comptroller). Without a single entity to compile all DFAS submissions into one report, DOD will not have the information necessary for conducting effective oversight of the general gift funds.

Lack of a Standardized Reporting Format May Hamper the Military Services' Ability to Consolidate Gift Fund Information

Military service officials are concerned that a lack of a standardized format within the military services to be used for assembling and reporting the monetary and nonmonetary gift fund records within the military services will hamper their ability to consolidate the gift fund information to provide to DFAS. DOD's policy identifies the information that is to be reported to DFAS, but does not indicate what standardized format should be used or who is responsible for developing such a format. For example, officials from the Air Force and Navy explained that the required gift fund information would have to be obtained from several locations within each service. Without a consistent format, acceptance authorities responsible for assembling the required information would do so inconsistently, thereby complicating the information to be sent to DFAS. These service officials would like to obtain guidance on who is responsible for developing a standardized format. We agree with the service officials that without a standardized format for the military services to use, information may not be easily compiled, and DOD may not have the information necessary for effective oversight of the general gift funds.

The Military Services' Procedures for Monitoring Nonmonetary Gifts Are Insufficient to Implement DOD's Policy

The military services' policies for monitoring nonmonetary gifts are insufficient to implement DOD's policy for nonmonetary gifts under the general gift fund authority. DOD's policy for monitoring gifts accepted under the general gift fund authority requires that the acceptance authorities keep accurate, auditable, and timely records of all gifts and provide this information for periodic audits. Additionally, DOD's policy requires the receiving organization to obtain and retain the required documentation and information for all gifts received. For audit purposes, the supporting documentation for monetary and nonmonetary gifts must be retained for 6 years and 3 months beyond the life of the asset.

Contrary to DOD's policy, the military services are not keeping auditable records of nonmonetary gifts accepted under general gift authority. According to service

officials, the military services do not maintain comprehensive documentation of nonmonetary gifts accepted and their current physical locations. The service officials explained that the reason they do not maintain a listing of nonmonetary gifts and their physical locations is because once a nonmonetary gift is accepted it loses its designation as a gift and is entered onto the applicable service's installation property records.¹² The current service gift fund policies generally require officials to follow the procedures prescribed by the applicable service-specific policies for property accountability. Service officials maintained that nonmonetary gifts are being monitored during the military services' routine inventories of property. However, our review revealed that the military services' routine property inventories do not constitute an audit of nonmonetary gifts as directed by DOD's policy, because the military services were unable to provide any documentation to verify that nonmonetary gifts had been added to the property records. Consequently, the routine inventory of property as currently conducted is insufficient for monitoring nonmonetary gifts and does not provide DOD with the level of assurance needed for effective oversight.

While our review of the military service gift funds' documentation did not provide assurance that the military services' procedures for monitoring nonmonetary gifts were sufficient to implement DOD's policy, the military services' procedures for monitoring monetary gifts appear to be reasonable. Through our review of the military services' policies and discussions with service officials, we found that the military services have procedures in place so that all gifts of money that are accepted are deposited into the appropriate account. Additionally, acceptance authorities maintain gift fund documentation that shows the receipt of the money and instructions on where the money is to be deposited. Furthermore, based on our conversations with DFAS officials, there are procedures in place to ensure that the military services' gift fund accounts are monitored and records are verified. For example, DFAS officials said that all the military services' gift fund transactions are reconciled on a regular basis to ensure that the gift fund account information is accurate. Examples of monitoring performed include monthly reconciliations

¹²Tracking of records would exclude consumable items such as tickets and food.

between DFAS's records and the Treasury account records and an annual reporting of investment transactions to the Treasury.

Conclusions

DOD's and the military services' policies for accepting gifts are necessary to ensure that gifts are not accepted that would reflect unfavorably on the ability of the department to carry out its responsibilities in a fair and objective manner. Also important are the department's policies for reporting and monitoring gifts, which allow for effective oversight. Oversight of the general gift funds is essential to ensure that proper accountability over donated property is established and maintained. Without military service implementation of DOD's policy for reporting and monitoring gifts, DOD will not have the information it needs for the effective oversight of general gift funds.

Recommendations for Executive Action

To assist DOD in overseeing the reporting of the general gift funds, we are recommending that the Secretary of Defense direct the

- (1) Under Secretary of Defense (Comptroller) to revise its general gift fund policy to assign responsibility to a single DFAS entity to consolidate the service DFAS submissions into one quarterly report to the Under Secretary of Defense (Comptroller);
- (2) Under Secretary of Defense (Comptroller) to revise its general gift fund policy to assign responsibility to the appropriate organization for developing a standardized reporting format for the military services to use when assembling the reporting requirements outlined in DOD's policy and then develop and require use of the standardized format; and
- (3) secretaries of the military services to maintain documentation in their gift fund records that nonmonetary gifts have been transferred to the property records in order to provide evidence that nonmonetary gifts are on the property records, which in turn are routinely audited.

Agency Comments and Our Evaluation

In written comments on a draft of this report (reprinted in enc. II), DOD concurred with all three of our recommendations. Based on discussions throughout our review, the Office of the Under Secretary of Defense (Comptroller) revised its gift fund policy on February 27, 2009 to address our recommended actions. Specifically, the revised policy (1) assigns responsibility to DFAS (Standards and Compliance) to consolidate the services DFAS gift fund submissions into one quarterly report to the Under Secretary of Defense (Comptroller) and to develop a standardized reporting format for the military services to start using when assembling the reporting requirements and (2) directs the military services to maintain documentation in gift fund records

that nonmonetary gifts have been transferred to the property records. DOD's comments indicate that as a result of the revised policy, actions have been completed for two of the three recommendations and that the third recommendation will be complete when the services begin using the new standardized format in July 2009. We believe that DOD's revised policy addresses our recommendations and when fully implemented should provide the department with the information it needs to allow for effective oversight and to ensure that proper accountability of donated property is maintained.

DOD also provided technical comments which we have incorporated where appropriate.

We are sending copies of this report to the Director of the Office of Management and Budget; the Secretary of Defense; and the Secretaries of the Army, the Navy, and the Air Force. The report also is available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-4523 or leporeb@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in enclosure III.

A handwritten signature in black ink, appearing to read "Brian Lepore". The signature is fluid and cursive, with the first name "Brian" and last name "Lepore" clearly distinguishable.

Brian J. Lepore, Director
Defense Capabilities and Management

Enclosures - 3

**Gifts Accepted by the Military Services under the General Gift Fund
(Fiscal Year 2005 through Fiscal Year 2008)**

In tables 2 through 4, we identify gifts received under the general gift fund from fiscal year 2005 through fiscal year 2008 that were valued at \$250,000 or greater for the Army, Air Force and Navy, respectively. We identify the service recipient of each of these gifts when known or when the gift was designated for a specific service recipient. As the last entry in each table, we list in aggregate gifts received that were valued at under \$250,000 per gift.

Table 2: Dollar Value of Gifts Received by the Army from Fiscal Year 2005 through Fiscal Year 2008

Dollars in thousands	
Gift received	Dollar value of gift received
Airborne and Special Operations Museum, Fort Bragg	\$22,500
Foley Athletic Center, U.S. Military Academy	10,250
Sybase Software, U.S. Military Academy	10,000
Anderson Rugby Complex, U.S. Military Academy	7,100
Warrior and Family Support Center, Fort Sam Houston	3,589
General officers quarters, Huntsville, Ala.	2,700
Monetary donation, U.S. Military Academy	2,678
Fisher House, Womack Army Medical Center	2,500
Lucas Military Heritage Center, U.S. Military Academy	2,000
Scoreboard, U.S. Military Academy	1,700
Fisher House, Fort Sam Houston	1,600
Fisher House, Fort Campbell	1,500
Rugby complex, U.S. Military Academy	1,000
Class of 1956 Cold War Memorial, U.S. Military Academy	1,000
Home construction, U.S. Military Academy	750
Addition to museum, Fort Sam Houston	700
Monument for Old Guard Committee, Fort Myer	700
Warrior Center, Landstuhl Regional Medical Center	651
Groves Golf Center, U.S. Military Academy	650
Monetary donation	409
Monetary donation	405
Building renovation, Letterkenny Army Depot	400
Monetary donation, U.S. Army War College	371
The Liberty Limited Excursion	362
Software licenses	359
Construction and materials, Fort Benning	350
Monetary donation to the Army War College	330
Fisher House Pavilion, Fort Sam Houston	285
Heavy rail dock, Letterkenny Army Depot	285
Monuments, Fort Drum	280
Painting services	277
Total value of other gifts donated for which the value of each gift was \$250,000 or less	3,531
Total	\$81,212

Source: GAO analysis of DOD data.

Enclosure I

Table 3: Dollar Value of Gifts Received by the Air Force from Fiscal Year 2005 through Fiscal Year 2008

Dollars in thousands	
Gift received	Dollar value of gift received
Bird of Prey and X-36 Air Vehicles	\$84,000
Secondary power system equipment, landing gear bushing cells, and software test stations	5,015
Construction of Joint Use Education Center	5,000
12 houses for extended-stay care for military service personnel (and their families) receiving inpatient treatment at the base hospital	2,750
12 houses for extended-stay care to military service personnel (and their families) receiving inpatient treatment at the base hospital	2,000
Media promotion supporting air show and meals and beverages to Air Force personnel	1,016
Addition to an existing Air Force museum gallery	915
2.64 acres of land	600
101.79 acres of land to support housing privatization	590
Interest distributed in 2007	532
121.45 acres of land	480
Air park with five displays of historical aircraft	300
Bronze statue of General Harmon and granite benches	300
Display of the Air Force 60 th anniversary's commemoration logo on a race car during the American Heroes program at the Lowes Motor Speedway	300
A memorial wall to honor special operations personnel who lost their lives in war	280
Public bus transportation and food and beverages for the Air Force staff	255
Honor Guard statue	255
Total value of other gifts donated for which the value of each gift was \$250,000 or less	2,613
Total	\$107,201

Source: GAO analysis of DOD data.

Enclosure I

Table 4: Dollar Value of Gifts Received by the Navy from Fiscal Year 2005 through Fiscal Year 2008

Dollars in thousands	
Gift received	Dollar value of gift received
U.S. Naval Academy Museum exhibits	\$34,100
Brigade sports complex, U.S. Naval Academy	18,500
Construction of new museum	10,000
New hockey and tennis facility	6,000
Training center and job placement program	5,562
Fisher House, San Diego, Calif.	3,600
"EZ Scores" calling cards	3,125
Software	3,072
Final phase of construction of the U.S. Naval Academy Museum	2,230
391,250 packs of the Military Assistance Communication Kit for deployed personnel	1,950
Precision Approach Radar System	1,750
Software	1,405
Media support materials during 2000-2006	1,200
Upgrades to the construction of the Commodore Uriah P. Levy Center and the Jewish Chapel, U.S. Naval Academy	1,100
2 new squash courts	1,000
Girl Scout cookies	776
Planning and design of the U.S. Naval Academy Museum exhibits	710
George H. W. Bush tribute room	675
Project support for 2008	631
Snow removal equipment to the Naval Air Station Joint Reserve Base, Willow Grove	528
Statues, U.S. Naval Academy	500
Family, Morale, Welfare, and Recreation programs	493
Project support for 2007	473
Project support for 2005	445
Morale, Welfare, and Recreation programs	403
10,000 magazine subscriptions for personnel in Iraq and Afghanistan	400
Columbarium	341
Virtual Technology Development and Operations Center, Naval Air Warfare Center Training Systems Division, Orlando, Fla.	300
Fisher Houses, Bethesda, Md.	300
Floating dock at Naval Submarine Base, New London, Conn.	300
New organ for the chapel, U.S. Naval Academy	290
Research support	280
Media support materials for 2007	260
Media support materials for 2008	260
Total value of other gifts donated for which the value of each gift was \$250,000 or less	4,023
Total	\$106,982

Source: GAO analysis of DOD data.

Comments from the Department of Defense



COMPTROLLER

UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

MAY 12 2009

Mr. Brian Lepore
Director, Defense Capabilities and Management
Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Mr. Lepore,

This is the Department of Defense (DoD) response to the Government Accountability Office (GAO) draft report, *Financial Management: DoD Needs to Clarify Its General Gift Fund Policies to Provide for Effective Oversight*, dated April 9, 2009 (GAO Code 351265/GAO-09-486R).

The Department concurs with the findings and recommendations in the report. Corrective actions have been taken on two of the three recommendations. Corrective actions for the remaining recommendation will be completed by July 2009.

My point of contact on this matter is Ms. Jodie Fisher. She may be reached by email at jodie.fisher@osd.mil or telephone at (703) 602-0371.

A handwritten signature in cursive script that reads "Robert F. Hale".

Robert F. Hale

Attachment:
As stated

**GAO DRAFT REPORT – DATED APRIL 9, 2009
GAO CODE 351265/GAO-09-486R**

***"Financial Management: DoD Needs to Clarify Its General Gift Fund Policies to
Provide for Effective Oversight"***

**DEPARTMENT OF DEFENSE COMMENTS
TO THE RECOMMENDATIONS**

RECOMMENDATION 1: The GAO recommends that the Secretary of Defense direct the Under Secretary of Defense (Comptroller) to revise its general gift fund policy to assign responsibility to a single Defense Finance and Accounting Service (DFAS) entity to consolidate the Service DFAS submissions into one quarterly report to the Under Secretary of Defense (Comptroller).

DOD RESPONSE: Concur. The Office of the Under Secretary of Defense (Comptroller) revised its general gift fund policy and assigned responsibility to DFAS (Standards and Compliance) to consolidate the Service DFAS submissions into one quarterly report to the Under Secretary of Defense (Comptroller). **Action is complete.**

RECOMMENDATION 2: The GAO recommends that the Secretary of Defense direct the Under Secretary of Defense (Comptroller) to revise its general gift fund policy to assign responsibility to the appropriate organization for developing a standardized reporting format for the Services to use when assembling the reporting requirements outlined in DoD's policy and then develop and require use of the standardized format.

DOD RESPONSE: Concur. The Office of the Under Secretary of Defense (Comptroller) revised its general gift fund policy and assigned responsibility to DFAS (Standards and Compliance) to develop a standardized reporting format for the Services to use when assembling the reporting requirements. DFAS (Standards and Compliance) will develop and require use of the standardized format for the July 2009 reporting period.

RECOMMENDATION 3: The GAO recommends that the Secretary of Defense direct the Secretaries of the Military Services to maintain documentation in their gift fund records that non-monetary gifts have been transferred to the property records in order to provide evidence that non-monetary gifts are on the property records, which in turn are routinely audited.

DOD RESPONSE: Concur. The Office of the Under Secretary of Defense (Comptroller) directed the Services, in its revised general gift fund policy, to maintain

Enclosure II

documentation in gift fund records that non-monetary gifts have been transferred to property records. **Action is complete.**

GAO Contact and Staff Acknowledgments

GAO Contact

Brain J. Lepore, (202) 512-4523 or leporeb@gao.gov

Acknowledgments

In addition to the contact named above, Laura Durland, Assistant Director; Bonita Anderson; Mae Jones; Gregory Marchand; Stephanie Moriarty; and Terry Richardson made significant contributions to the report.

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